UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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PENGUIN BOOKS U.S.A., INC., FOUNDATION FOR "A COURSE IN MIRACLES, INC.", and FOUNDATION FOR INNER PEACE, INC.,

Plaintiffs,

96 Civ. 4126 (RWS)

- against -

O P I N I O N

NEW CHRISTIAN CHURCH OF FULL ENDEAVOR, LTD., and ENDEAVOR ACADEMY,

Defendants.

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Sweet, D.J.,

Defendants New Christian Church of Full Endeavor, Ltd., and Endeavor Academy (collectively, the "Church") have filed a motion for attorneys' fees under the Copyright Act against plaintiffs Penguin Books, USA, Inc. ("Penguin"), Foundation for Inner Peace, Inc. ("FIP"), and Foundation for "A Course In Miracles," Inc. ("FACIM"), (collectively, "Plaintiffs"). For the reasons set forth below, the Church's motion for attorneys' fees is denied.

Prior Proceedings

The original action was commenced on June 3, 1996 by Penguin to enforce its copyright in a text entitled A Course in Miracles (the "Course" or the "Work"). On February 3, 2000, Penguin along with FIP and FACIM moved for a preliminary injunction, and the Church cross-moved for summary judgment. In an opinion of July 25, 2000, this Court held that Plaintiffs had established a prima facie case of copyright infringement in connection with the Work and dismissed the Church's Affirmative Defenses 1-6 and 8-13. Penguin Books USA, Inc. v. New Christian Church of Full Endeavor, Ltd., No. 96 Civ. 4126 (RWS), 2000 WL 1028634 (S.D.N.Y. July 25, 2000) ("Penguin I"). After a bench trial from May 19 to May 21, 2003, the copyright in the Course was held invalid due to prior publication without notice of

copyright. Penguin Books USA, Inc. v. New Christian Church of Full Endeavor, Ltd., 288 F. Supp. 2d 544 (S.D.N.Y. 2003) ("Penguin II"). Familiarity with these opinions is assumed.

Penguin II granted judgment "with costs to the defendants" and directed the parties to submit judgment on notice. Penguin II at 558. The opinion did not specify whether the "costs" granted were to include attorneys' fees pursuant to 17 U.S.C. § 505, and the Church filed the instant motion for attorneys' fees on December 31, 2003. Oral arguments were heard on February 11, 2004. Due to time constraints, the parties[1] were not able to address all the issues they wished to reach, and the Court permitted the parties to submit additional briefs on the motion. The parties submitted additional materials, after which time the motion was deemed fully submitted.[2]

I. Motion for Attorneys' Fees

The Church argues that Plaintiffs were objectively unreasonable in bringing their case and that Plaintiffs acted in bad faith during discovery as well as at trial. The Church also argues that Plaintiffs' motives in pursuing the litigation were

[1] The parties previously stipulated to the dismissal of Penguin from this action except with regard to Penguin's potential liability for damages and attorneys' fees. Penguin II at 547 n.1. In light of that exception and the subject of the instant motion, Penguin has submitted papers in opposition to the Church's motion, as have the remaining plaintiffs.

[2] Materials from the parties were received or filed through March 2, 2004.

based on an attempt to control the religious use of the Course. Finally, the Church contends that granting it attorneys' fees would be in keeping with the purposes of the Copyright Act. These factors, taken together with the relative financial strength of the parties, are the basis for the Church's application for attorneys' fees.

A. Applicable Standard

The Church seeks a post-judgment award of attorneys' fees pursuant to Section 505 of the Copyright Act and the inherent equitable power of the court. Section 505 of the Copyright Act provides that:

> [i]n any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title, the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.

17 U.S.C. § 505.

In Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994), the Supreme Court held that the standard governing the award of attorneys' fees under Section 505 should be identical for prevailing plaintiffs and prevailing defendants. The Court noted that "[t]here is no precise rule or formula for making [attorneys' fees] determinations, but instead equitable discretion should be

exercised," id. (internal quotation marks and citation omitted), and then proceeded to list several nonexclusive factors courts should consider when exercising this discretion: "'frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.'" Id. at 534 n.19 (quoting Lieb v. Topstone Industries, Inc., 788 F.2d 151, 156 (3d Cir. 1986)). The Court cautioned, however, that such factors may be used only "so long as [they] are faithful to the purposes of the Copyright Act." Fogerty, 510 U.S. at 534 n.19.

In evaluating a motion for attorneys' fees, the Second Circuit has directed that "objective reasonableness is a factor that should be given substantial weight in determining whether an award of attorneys' fees is warranted." Matthew Bender & Co., Inc. v. West Pub. Co., 240 F.3d 116, 122 (2nd Cir. 2001). The mere fact that a defendant prevailed, however, "does not necessarily mean that the plaintiff's position was frivolous or objectively unreasonable." Arclightz and Films Pvt. Ltd. v. Video Palace, Inc., No. 01 Civ. 10135 (SAS), 2003 WL 22434153, at *3 (S.D.N.Y. Oct. 24, 2003); cf. Littel v. Twentieth Century-Fox Film Corp., No. 89 Civ. 8526 (DLC), 1996 WL 18819, at *3 (S.D.N.Y. Jan. 18, 1996), aff'd sub nom. DeStefano v. Twentieth Century Fox Film Corp., 100 F.3d 943 (2d Cir. 1996). "To hold otherwise would establish a per se entitlement to attorney's fees whenever [issues pertaining to

judgment] are resolved against a copyright plaintiff." CK Co. v. Burger King Corp., No. 92 Civ. 1488 (CSH), 1995 WL 29488, at *1 (S.D.N.Y. Jan. 26, 1995). In any event, attorneys' fees should not be awarded to the prevailing party "as a matter of course," but as a matter of the court's discretion. Fogerty, 510 U.S. at 533-34; accord Matthew Bender & Co., 240 F.3d at 121-22.

B. Plaintiffs' Claim Was Not Objectively Unreasonable

The Church argues that the "Plaintiffs knew they had a factually weak claim and yet they pursued it . . . ." (Def. Mem. at 7.) The Church further asserts that because Plaintiffs pursued a claim that they knew to be without merit based on their own knowledge of the facts, the claim was objectively unreasonable.

"[N]ot all unsuccessful litigated claims are objectively unreasonable." CK, 1995 WL 29488, at *1; see also Ann Howard Designs, L.P. v. Southern Frills, Inc., 7 F. Supp. 2d 388, 390 (S.D.N.Y. 1998) ("[A]lthough courts have recognized that costs and fees can be awarded where one pursues a claim unreasonable on its face, an unsuccessful claim does not necessarily equate with an objectively unreasonable claim.") (citation omitted). Rather, the courts of this Circuit have generally concluded that only those claims that are clearly without merit or otherwise patently devoid of legal or factual basis ought to be deemed objectively unreasonable. See, e.g., Littel, 1996 WL 18819, at *2-3 (deeming

plaintiffs' claims objectively unreasonable where plaintiffs "'as much as concede[d]'" that the book and movies at issue bore no resemblance at all apart from their titles and the case presented no novel or complex issues of law or fact) (citation omitted); Screenlife Establishment v. Tower Video, Inc., 868 F. Supp. 47, 52 (S.D.N.Y. 1994) (deeming plaintiff's pursuit of its claim for actual damages unreasonable where the claim of actual damages was, at best, speculative and remote). In other words, the question "is not whether there was a sufficient basis for judgment in favor of defendants, but whether the factual and legal support for plaintiff's position was so lacking as to render its claim . . . objectively unreasonable." Proctor & Gamble Co. v. Colgate-Palmolive Co., No. 96 Civ. 9123 (RPP), 1999 WL 504909, at *2 (S.D.N.Y. July 15, 1999); see also CK, 1995 WL 29488, at *1 ("The infirmity of the claim, while falling short of branding it as frivolous or harassing, must nonetheless be pronounced [to be deemed objectively unreasonable].")

Here, the Church has not demonstrated that Plaintiffs' claim was so lacking in legal or factual support as to be objectively unreasonable. Plaintiffs owned a purportedly valid copyright, and the Church published Plaintiffs' copyrighted material. See Penguin I at *15-16. These facts alone were enough to establish a prima facie case and support an objectively reasonable legal claim to protect that copyright. See id. at *16; Penguin II at 547. While Plaintiffs' suit was ultimately

unsuccessful, a preliminary injunction against the Church was obtained, Plaintiffs' claim withstood summary judgment, and Plaintiffs were able to eliminate twelve of the thirteen affirmative defenses asserted by the Church. See Penguin II at 547, 558; see also Penguin I at *22 (noting that "while Plaintiffs' likelihood of success on the merits of the action is unclear, the discussion of the summary judgment motions demonstrates beyond doubt that there are sufficiently serious questions going to the merits to make them a fair ground for litigation."). It was only after a three-day trial that certain complex factual issues were eventually determined in the Church's favor and the copyright was rendered invalid. See Penguin II at 547, 558. Under these circumstances, there is nothing to suggest that Plaintiffs' claim was so objectively unreasonable as to justify an award of attorneys' fees.[3]

Nor do the cases cited by the Church compel a contrary result. The Church points to several cases in which attorneys' fees were granted on the basis of the objective unreasonableness of a party's claim. In each of the cases cited, however, the party seeking attorneys' fees had prevailed on a motion for summary judgment. See Arclightz and Films Pvt., 2003 WL 22434153, at *5;

[3] The Church also argues that Plaintiffs' pursuit of their claim was objectively unreasonable because Plaintiffs knew that the Work had been previously distributed. The Church's allegations do not align with the findings of fact established at trial concerning the issue of prior publication, which occurred over a quarter of a century ago. See Penguin II at 548-52.

Torah Soft Ltd. v. Drosnin, No. 00 Civ. 5650 (JCF), 2001 WL 1506013, at *1 (S.D.N.Y. Nov. 27, 2001); Viacom Int'l Inc. v. Fanzine Int'l Inc., No. 98 Civ. 7448 (RCC), 2001 WL 930248, at *6 (S.D.N.Y. Aug. 16, 2001); Earth Flag Ltd. v. Alamo Flag Company, 154 F. Supp. 2d 663, 665 (S.D.N.Y. 2001); Tuff 'N' Rumble Management, Inc. v. Profile Records, Inc., No. 95 Civ. 0246 (SHS), 1997 WL 470114, at *1 (S.D.N.Y. Aug. 15, 1997). The Church cites no precedent for the proposition that a plaintiff's claim may be deemed objectively unreasonable after the plaintiff's claim has survived a motion for summary judgment and proceeded to trial, as occurred in this case.

C. Plaintiffs Were Not Motivated By Bad Faith

The Church argues that Plaintiffs' conduct both before and during the litigation evidences Plaintiffs' bad faith. The Church claims, inter alia, that Plaintiffs made mis-representations with regard to the discovery of evidence and acted in bad faith when they challenged audiotape evidence on its authenticity and failed to produce certain materials during discovery. The Church further claims that Plaintiffs wrongfully obtained their original injunction against the Church. Finally, the Church argues that Plaintiffs' motives in pursuing the litigation were improper because Plaintiffs sought to quash the use of the Course for religious purposes.

In reply, Plaintiffs deny the Church's allegations and argue that it was the Church which acted unreasonably and in bad faith throughout the course of litigation through various discovery abuses, among other things. Plaintiffs also claim that the Church misrepresents key facts regarding Plaintiffs' conduct during the litigation and state that the Church's claim that Plaintiffs attempted to restrict the Church's exercise of religion is "delusional fantasy." (Pl. Reply Mem. at 13.)

"In an appropriate case, the presence of other factors might justify an award of fees despite a finding that the nonprevailing party's position was objectively reasonable." Matthew Bender & Co., 240 F.3d at 122 (citing Matthews v. Freedman 157 F.3d 25, 29 (1st Cir. 1998)). Such factors may include a party's bad faith conduct. See Matthew Bender & Co., 240 F.3d at 125 ("[B]ad faith in the conduct of the litigation is a valid ground for the award of fees."); Elements/Jill Schwartz, Inc. v. Gloriosa Co., No. 01 Civ. 904 (DLC), 2002 WL 31133391, at *2 (S.D.N.Y. Sept. 26, 2002) (same).

Although this Court may, in its discretion, award attorneys' fees when there is sufficient evidence of bad faith conduct even absent a showing that the claim was objectively unreasonable, this is not an appropriate case in which to do so. The Court finds no egregious misconduct by either Plaintiffs or the Church, nor sufficient evidence to establish that Plaintiffs

brought their case in bad faith. In light of this, the behavior alleged by both parties may not be said to rise to the level of bad faith action warranting attorneys' fees.

D. An Award of Attorneys Fees Would Not Be in Furtherance of the Purpose of the Copyright Act

The Second Circuit has made clear that the emphasis on objective reasonableness is "firmly rooted in Fogerty's admonition that any factor a court considers in deciding whether to award attorneys' fees must be 'faithful to the purposes of the Copyright Act.'" Matthew Bender & Co., 240 F.3d at 122 (quoting Fogerty, 510 U.S. at 534 n.19). As the Supreme Court itself has explained:

> Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement.

Fogerty, 510 U.S. at 527. Therefore, it will generally not promote the purposes of the Copyright Act to impose a fee award against a purported copyright holder when that copyright holder has not taken an objectively unreasonable litigation position. See Matthew Bender & Co., 240 F.3d at 122 (citing Mitek Holdings, Inc. v. Arce Eng'g Co., 198 F.3d 840, 842-43 (11th Cir. 1999) ("The touchstone of attorney's fees under § 505 is whether imposition of attorney's

fees will further the interests of the Copyright Act, i.e., by encouraging the raising of objectively reasonable claims and defenses, which may serve not only to deter infringement but also to ensure 'that the boundaries of copyright law [are] demarcated as clearly as possible' in order to maximize the public exposure to valuable works.") (quoting Fogerty, 510 U.S. at 526-27)).

Plaintiffs here established a prima facie case which, by being subject to a successful defense, helped to delineate the specific parameters of the issue of prior publication. For this reason, the Court does not find that awarding attorneys' fees to the Church would be in furtherance of the Copyright Act.

E. Relative Financial Strength Is Not A Determinative Factor

The Church argues that, although not mentioned in Fogerty, "'the relative financial resources of the parties is an appropriate factor to be considered in awarding fees under the Copyright Act.'" (Def. Mem. at 20 (quoting Torah Soft, 2001 WL 1506013 at *6 (citations omitted).) While the factors listed in Fogerty are not intended to be exhaustive, see Fogerty, 510 U.S. at 534 n.19, and the relative financial strengths of the parties may well be a proper factor for consideration in determining whether attorneys' fees should be granted, the cases cited by the Church do not, with certain exceptions discussed below, stand for the proposition advanced by the Church. Rather, when traced back to

their collective point of origin in Williams v. Crichton, these cases[4] stand only for the notion that financial disparities may be a factor considered in determining the magnitude of an award once it has been resolved that such an award is appropriate.[5] See Williams v. Crichton, No. 93 Civ. 6829 (LMM), 1995 WL 449068, at *1 (S.D.N.Y. July 26, 1995) (taking into consideration the relative financial strength of the parties in "determining the amount of an award under 17 U.S.C. § 505" after a decision to award fees had been reached) (citing Lieb, 788 F.2d at 156 ("Having decided that fees should be awarded, the district court must then determine what amount is reasonable under the circumstances. . . . The relative financial strengths of the parties is a valid consideration.") (citations omitted)); accord Torah Soft, 2001 WL 1506013, at *6 (acknowledging that facts establishing a party's limited financial

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[4] See Video-Cinema Films, Inc. v. Cable News Network, Inc., Nos. 98 Civ. 7128 (BSJ), 98 Civ. 7129 (BSJ), & 98 Civ. 7130 (BSJ), 2003 WL 1701904, at *5 (S.D.N.Y. Mar. 31, 2003) (citing Torah Soft Ltd. v. Drosnin, No. 00 Civ. 5650 (JCF), 2001 WL 1506013, at *6 (S.D.N.Y. Nov. 27, 2001)); Torah Soft, 2001 WL 1506013 at *6 (citing Liebovitz v. Paramount Pictures Corp., No. 94 Civ. 9144, 2000 WL 1010830, at *5 (S.D.N.Y. July 21, 2000); Littel v. Twentieth-Century Fox Film Corp., No. 89 Civ. 8526 (DLC), 1996 WL 18819, at *3 (S.D.N.Y. Jan. 18, 1996)); Liebovitz, 2000 WL 1010830, at *5 (citing Littel, 1996 WL 18819, at *1); Tuff 'N' Rumble Management, Inc. v. Profile Records, Inc., No. 95 Civ. 0246 (SHS), 1997 WL 470114, at *1 (S.D.N.Y. Aug. 15, 1997) (citing Williams v. Crichton, No. 93 Civ. 6829 (LMM), 1995 WL 449068, at *1 (S.D.N.Y. July 26, 1995)); Littel, 1996 WL 18819, at *1 (citing Williams,1995 WL 449068, at *1).

[5] The Second Circuit has specifically noted that the Williams court did not weigh any financial disparity between the parties in determining to award attorneys' fees. See Matthew Bender & Co., Inc. v. West Pub. Co., 240 F.3d 116, 122 (2nd Cir. 2001) (citing Williams v. Crichton, 891 F. Supp. 120, 122 (S.D.N.Y. 1994) as a case "awarding fees solely because losing party's claims were objectively unreasonable").

resources, "if fully documented, may affect the magnitude of any award, [but] need not preclude altogether some assessment of fees"); Tuff 'N' Rumble Management, 1997 WL 470114, at *1 (granting attorneys' fees but awarding a lower amount than requested "in recognition of plaintiff's claimed financial instability"); Littel, 1996 WL 18819, at *3 (determining that defendants are entitled to recover attorneys' fees but, "mindful of the likelihood of a significant disparity between the parties' financial circumstances," directing the submission of further financial information before the amount of an award is set).

Nevertheless, in recent years certain courts have treated a financial disparity between the parties as a factor to be weighed in determining whether an award should issue rather than simply the magnitude of such an award. See Video-Cinema Films, Inc. v. Cable News Network, Inc., Nos. 98 Civ. 7128 (BSJ), 98 Civ. 7129 (BSJ), & 98 Civ. 7130 (BSJ), 2003 WL 1701904, at *5 (S.D.N.Y. Mar. 31, 2003) (weighing the parties' relative financial strength as one among several factors in determining whether to award fees); Liebovitz v. Paramount Pictures Corp., No. 94 Civ. 9144, 2000 WL 1010830, at *5 (S.D.N.Y. July 21, 2000) (same). To the extent these opinions were premised on mistaken or opaque prior constructions of the holding in Williams, this Court declines to tread that same path.

Even assuming that the parties' financial disparity were an appropriate factor to consider in determining whether an award

should be granted, it would not be a dispositive factor here. The Church claims that an award of attorneys' fees is appropriate because it has few financial resources as compared to Plaintiffs. Plaintiffs respond that the Church has submitted insufficient documentary corroboration to its claim of being on the verge of bankruptcy and it is not clear whether the Church includes the value of numerous real estate holdings in its tabulation of assets. In post-argument filings, the Church submitted various supporting documents, including statements from its accountant and copies of utility bills, but failed to address all of Plaintiffs' contentions. As a result, the Church's exact financial status remains in dispute, precluding any final determination of whether attorneys' fees are warranted on that basis.

In any event, financial disparity does not provide a basis to award attorneys' fees under the Copyright Act in the circumstances of this action. See Mitek Holdings, 198 F.3d at 842 ("It is unsurprising that no case law supports the proposition that a difference in financial wealth, in and of itself, is sufficient to justify attorney's fees under § 505."); see also Harrison Music Corp. v. Tesfaye, 293 F. Supp. 2d 80, 85 (D.D.C. 2003) ("The decision to award attorney's fees is based on whether imposition of the fees will further the goals of the Copyright Act, not on whether the losing party can afford to pay the fees.") (citation omitted). As the Church has established no additional ground for

granting attorneys' fees here, an award of attorneys' fees and costs is unwarranted.

Conclusion

For the foregoing reasons, the Church's motion for attorneys' fees is denied. Submit judgment on notice on or before April 21, 2004 reflecting the holding in Penguin II as well as the conclusion reached here.[6]

It is so ordered.

New York, NY
April 6, 2004

ROBERT W. SWEET
U.S.D.J.

[6] The Church's motion papers propose the inclusion in the as-yet unentered judgment of a provision invalidating all copyright claims and registrations pertaining to earlier pre-publication versions of the Course. Such a proposal will only be considered by separate application.